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ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31

1965

GENERAL STEEL WARES LIMITED

FACTS IN BRIEF

	1965	1964
Net sales	$49,778,292	$47,940,850
Net profit for year	204,982	585,069
Dividends	177,300	179,981
Increase in earned surplus for year	27,682	405,088
Bank loan and short term notes (less cash)	5,396,167	6,088,224
Total current assets	19,269,382	20,899,045
Total current liabilities	11,495,384	13,314,737
Ratio — current assets to current liabilities	1.7 to 1	1.6 to 1
Working capital	7,773,998	7,584,308

STATEMENT OF FINANCIAL ACTIVITIES

YEAR ENDED DECEMBER 31, 1965

FACTORS WHICH PROVIDED CASH:		
Operations —		
Net profit for the year	$ 204,982	
Add items included therein which did not require an outlay of cash:		
Depreciation	696,708	
Amortization of licence and tooling	100,000	
Amortization of excess cost of Beatty Bros. Limited assets acquired	97,500	$1,099,190
Reduction of assets —		
Inventories	1,288,233	
Accounts receivable	211,928	
Income tax recoverable	11,978	
Prepaid expenses	46,220	1,558,359
		$2,657,549
FACTORS WHICH REQUIRED CASH:		
Reduction of accounts payable and other liabilities	$ 801,095	
Fixed asset additions (net)	486,197	
Redemption of preferred shares	136,400	
Reduction of funded debt	364,500	
Payment of dividends on preferred shares	177,300	1,965,492
DECREASE IN BANK LOAN AND SHORT TERM NOTES (NET)		$ 692,057

REPORT OF THE BOARD OF DIRECTORS

To the Shareholders:

Sales increased from $47,940,850 in 1964 to $49,778,292 in 1965, reflecting a full year's ownership of the Beatty division, which was purchased early in 1964.

Profits for 1965 amounted to $204,982 compared to a profit of $585,069 in 1964. As you will recall, the 1964 profits were after providing for non-recurring moving expenses of $427,831.

These moves which affected our housewares and appliance divisions, contributed to improved operating results for both divisions. Sales in these divisions increased. Profits increased substantially in housewares and to a lesser extent in appliances, despite much heavier expenditures on tooling and engineering in the latter division.

Sales and profit in our industrial contract division fell sharply reflecting your company's decision to terminate its automotive contract business, following the Canada-U.S. Automotive Agreement which became effective in 1965. While your directors agree that this pact will bring more employment to Canada and assist in reducing this country's trade deficit, they also felt that the company should not commit additional assets to the automotive contract business. In the long run it will be healthier for the company to make substantial investments in capital equipment, tooling and engineering for its proprietary line of products.

Sales decreased in the Beatty division, as we phased out products which we distributed but did not manufacture. Sales of manufactured products increased. Profits declined in part due to strikes which closed the Fergus plant for three weeks.

At the end of 1965 we purchased Quality Farm Equipment Ltd. of Aurora, Ontario, manufacturers of forage wagons, harrows and bale bunchers. These products will be distributed by the Beatty division, and fit in well with our existing line.

Operations in the United Kingdom resulted in a loss for the year. Sales decreased, and import taxes imposed at the end of 1964 reduced our gross profits.

A new plant at Hatfield began manufacturing warm air furnaces at the end of 1965. Costs incurred in setting up the plant have been written off in 1965.

Tooling and Engineering:

Expenditures on tooling and engineering increased $450,000 over 1964, and, as is our practice, all such expenditures have been charged against earnings in 1965. A further increase is planned in 1966 in order to improve our products in growing markets.

Capital Expenditures:

Spending for new equipment amounted to $500,000 in 1965. It is planned to spend more in 1966. Appliance operations at our London, Ontario, plant are being expanded with the acquisition, early in 1966, of 8 acres of land and a 60,000 square foot building adjacent to our plant. $250,000 will be spent for new equipment in our Montreal plant.

Financial:

Working capital increased from $7,584,000 to $7,774,000. Inventories were reduced by $1,288,000 and receivables by $212,000. Bank and note borrowings, as at December 31st, decreased by $763,000, from $6,189,000 to $5,426,000. However, due to larger borrowings throughout the year, and increased rates of interest, interest charges rose from $385,000 to $569,000.

Personnel:

Management of your company's divisions has been improved through many promotions from within the company, and senior management in some divisions has been strengthened by bringing in able people from outside our company.

During 1965, James H. McIlroy retired as a Vice-President and Director of Sales for the Housewares Division, after 47 years of distinguished service to your company.

General:

Despite the improved results in the appliance and housewares divisions, these were more than offset by losses in the Beatty division and in General Steel Wares (U.K.) Ltd.

While your directors are disappointed with 1965's net profit, nevertheless, they believe that the measures taken to strengthen your company and the efforts that have been expended by the people in all divisions during the past year have improved your company's competitive position. These efforts are continuing throughout the company and your directors look forward in the forthcoming year to further important progress in the appliance and housewares divisions and to a reversal of the results in the areas where losses were encountered.

Your directors would especially like to express their appreciation for the past and continuing loyalty and efforts of all those associated with your company.

Toronto, March 10, 1966.

On behalf of the Board

R. M. Barford

President

CONSOLIDATED FINANCIAL STATEMENTS

GENERAL STEEL WARES LIMITED

(Incorporated under the laws of Canada)

and Subsidiary Companies

YEAR ENDED DECEMBER 31, 1965

BALANCE SHEET DECEMBER 31, 1965

(with comparative figures for 1964)

ASSETS

CURRENT ASSETS:	1965	1964
Cash	$ 30,003	$ 101,307
Accounts receivable, less allowance for doubtful accounts	5,627,065	5,838,993
Income taxes recoverable	4,113	16,091
Inventories, valued at the lower of cost and market	12,593,392	13,881,625
Prepaid expenses and manufacturing supplies	364,809	411,029
Mortgage receivable, since paid	650,000	650,000
Total current assets	$19,269,382	$20,899,045
FIXED ASSETS:		
Land, buildings and equipment, at cost	$16,300,952	$15,834,262
Less accumulated depreciation	11,838,696	11,161,495
	$ 4,462,256	$ 4,672,767
OTHER ASSETS:		
Excess of cost over net book value of assets acquired from Beatty Bros. Limited, less amortization	$ 1,755,000	$ 1,852,500
Licence and tooling in connection with a new business acquired, less amortization	316,000	416,000
Excess of cost of common shares of The Easy Washing Machine Company, Limited over book value thereof at date of acquisition	507,090	507,079
Engineering, tooling and patent costs, less amounts written off	1	1
	$ 2,578,091	$ 2,775,580
	$26,309,729	$28,347,392

On behalf of the Board:

R. M. BARFORD, Director

R. A. STEVENS, Director

LIABILITIES

CURRENT LIABILITIES:	1965	1964
Bank loan	$ 426,170	$ 1,389,531
Short term notes	5,000,000	4,800,000
	$ 5,426,170	$ 6,189,531
Accounts payable	4,728,008	5,312,396
Income and other taxes payable	429,199	542,238
Dividends payable	43,282	44,988
Provision for warranties	600,000	600,000
Due to Beatty Bros. Limited	77,683	184,643
Sinking fund instalments of funded debt due within one year	119,000	237,500
Sinking fund for preferred share redemption	72,042	203,441
Total current liabilities	$11,495,384	$13,314,737
FUNDED DEBT (note 2)	3,711,000	3,957,000
ACCUMULATED TAX REDUCTIONS APPLICABLE TO FUTURE YEARS	180,500	180,500
RESERVE FOR FUTURE TOOLING COSTS	250,000	250,000
MINORITY INTEREST IN THE EASY WASHING MACHINE COMPANY, LIMITED	1,137	1,169
	$15,638,021	$17,703,406
SHAREHOLDERS' EQUITY:		
5% cumulative preferred shares of $100 each redeemable at $105 —		
Authorized, less redeemed: 59,546 shares		
Outstanding: 34,626 shares (1,364 shares were purchased for cancellation in 1965)	$ 3,462,600	$ 3,599,000
Less sinking fund for preferred share redemption	72,042	203,441
	$ 3,390,558	$ 3,395,559
Common shares without nominal or par value —		
Authorized: 1,000,000 shares		
Outstanding: 628,804 shares (of which 5 shares were issued in 1965)	$ 4,404,414	$ 4,404,373
Contributed surplus	88,501	83,501
Earned surplus (of which $924,600 is designated as capital surplus under Section 61 of the Canada Corporations Act)	2,788,235	2,760,553
	$ 7,281,150	$ 7,248,427
Total shareholders' equity	$10,671,708	$10,643,986
	$26,309,729	$28,347,392

PROFIT AND LOSS YEAR ENDED DECEMBER 31, 1965

(with comparative figures for 1964)

	1965	1964
Net sales	$49,778,292	$47,940,850
Less cost of sales, selling and administrative expenses before providing for the undernoted items	48,156,447	45,680,925
	$ 1,621,845	$ 2,259,925
Interest on funded debt	169,218	181,841
Interest on other loans	399,661	202,822
Depreciation	696,708	678,034
Amortization of licence and tooling in connection with a new business acquired	100,000	84,000
Amortization of excess cost of Beatty Bros. assets acquired	97,500	97,500
	$ 1,463,087	$ 1,244,197
	$ 158,758	$ 1,015,728
Income taxes (recoverable) (note 3)	(46,224)	67,500
	$ 204,982	$ 948,228
Gain on fixed asset disposals		64,672
Profit for the year before non-recurring expense		$ 1,012,900
Direct plant relocation costs		427,831
NET PROFIT FOR THE YEAR	$ 204,982	$ 585,069

STATEMENTS OF EARNED SURPLUS AND CONTRIBUTED SURPLUS

YEAR ENDED DECEMBER 31, 1965

(with comparative figures for 1964)

EARNED SURPLUS

	1965	1964
Balance, beginning of year	$2,760,553	$2,355,465
Add net profit for the year	204,982	585,069
	$2,965,535	$2,940,534
Deduct dividends on preferred shares declared during the year	177,300	179,981
Balance, end of year	$2,788,235	$2,760,553

CONTRIBUTED SURPLUS

	1965	1964
Balance, beginning of year	$ 83,501	$ 82,614
Add profits on purchase of preferred shares	5,000	887
Balance, end of year	$ 88,501	$ 83,501

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1965

1. Subsidiary companies consolidated:

   The consolidated financial statements reflect a consolidation of General Steel Wares Limited, and its subsidiaries, The Easy Washing Machine Company, Limited, General Steel Wares (U.K.) Limited, Beatty Bros. Incorporated, and several other small subsidiaries.

2. Funded debt:

   Details of this debt are as follows:

	Outstanding	*Sinking Fund instalment due within one year*	*Net*
General Steel Wares Limited —			
First Mortgage Bonds:			
Series "A" — 3½% due May 1, 1970	$1,968,000		$1,968,000
Series "B" — 5% due April 15, 1973	1,555,000	$ 82,000	1,473,000
	$3,523,000	$ 82,000	$3,441,000
The Easy Washing Machine Company, Limited —			
Sinking Fund Debentures:			
Series "A" — 5¾% due June 30, 1969	307,000	37,000	270,000
	$3,830,000	$119,000	$3,711,000

   The total amount of General Steel Wares bonds authorized was $8,000,000. Of these, $1,500,000 have not been issued. The total amount of The Easy Washing Machine Company, Limited debentures authorized was $1,500,000, of which $750,000 have not been issued.

3. Income taxes:

   No provision for income taxes is required in 1965 as a result of the carry-forward of prior years' losses.

   The income tax recoverable of $46,224 results from the carry-back to 1964 of losses incurred in 1965 by one of the subsidiaries.

4. Fees and salaries:

   Directors' fees and remuneration of salaried directors amounted to $158,000 in 1965.

THE DIVISIONS OF THE COMPANY AND
THE PRODUCTS THEY MARKET

AUDITORS' REPORT

To the Shareholders of
General Steel Wares Limited:

We have examined the consolidated balance sheet of General Steel Wares Limited and its subsidiary companies as at December 31, 1965 and the consolidated statements of profit and loss, earned surplus, contributed surplus and financial activities for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statements of profit and loss, earned surplus, contributed surplus and financial activities present fairly the financial position of the company as at December 31, 1965, the results of its operations and the sources and application of cash for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
February 23, 1966.

Clarkson, Gordon & Co.
Chartered Accountants

BOARD OF DIRECTORS

R. M. Barford
R. C. Berkinshaw
Gage Campbell
G. M. Farquharson, Q.C.
G. R. Gardiner
Miss M. P. Hyndman, Q.C.
D. S. Johnson
A. A. P. Menzies
Jean Raymond, Q.C.
N. S. Robertson, Q.C.
R. A. Stevens

OFFICERS

R. M. Barford	Chairman and President
R. A. Stevens	Executive Vice-President
Gage Campbell	Executive Vice-President
A. A. P. Menzies	Vice-President
G. M. Farquharson, Q.C.	Secretary

SHARE TRANSFER AGENTS

Preferred Shares	The Canada Trust Company
Common Shares	National Trust Company Limited

BANKERS — The Bank of Nova Scotia

AUDITORS — Clarkson, Gordon & Co.

GENERAL STEEL WARES, LIMITED

Head Office - Toronto, Ontario

THE DIVISIONS OF THE COMPANY AND THE PRODUCTS THEY MARKET

APPLIANCE DIVISION

AIR CONDITIONING AND COIN LAUNDRY DIVISION
McClary-Easy/Fedders window and central air conditioning • McClary-Easy coin and push button laundry equipment for apartments and coin laundries.

ARCHITECTURAL DIVISION
Metal lockers • Fire doors • Hollow metal doors and frames • Toilet and shower partitions for commercial applications.

BEATTY APPLIANCE COMPANY
Beatty electric ranges • Refrigerators • Upright and chest freezers • Automatic washers and dryers • Wringer washers • Automatic ironers.

BELWOOD APPLIANCE COMPANY
Ultra low temperature freezers for industrial and commercial applications • Chest and upright freezers for food plan distributors.

CONTRACT DIVISION
Private label appliances.

EXPORT DIVISION
All products of the company.

GENERAL STEEL WARES (U.K.) LTD.
Warm air heating • Coin laundry equipment • Major appliances.

McCLARY-EASY DIVISION
McClary-Easy electric ranges • Refrigerators • Upright and chest freezers • Wringer washers • Automatic washers and dryers • Floor polishers.

SERVICE DIVISION
Replacement parts and field service.

BEATTY BROS. DIVISION

FARM LINES DIVISION
Forage wagons • Manure spreaders • Harrows • Bale bunchers • Silo unloaders • Gutter cleaners • Mechanical feeding equipment • Steel pens and stalls.

GATOR TRAILER DIVISION
Boat and snowmobile trailers.

McDOUGALL PUMP DIVISION
Direct-drive shallow and deep well piston pumps • Jet pumps • Submersible pumps • Cistern pumps • Sump pumps • Water conditioners.

PUMP AND HARDWARE DIVISION
Direct-drive shallow and deep well piston pumps • Jet pumps • Submersible pumps • Cistern pumps • Sump pumps • Water conditioners.

HOUSEWARES DIVISION

Stainless steel and aluminum cooking utensils • Lithographed pantry ware and a wide range of metal household and related products • Range boilers • Water heaters • Shower cabinets.

INDUSTRIAL PRODUCTS DIVISION

Many products are made to specification for Canadian manufacturers such as: Porcelain enamelled tubs and wringers for the laundry industry • Transformer tanks • Concrete roofing forms • Special lithographed items such as buffet trays.